

Message Text

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ACTION EA-12

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C O N F I D E N T I A L JAKARTA 0522

E.O. 11652: GDS
TAGS: ENRG, ID
SUBJECT: INDONESIAN REACTION TO U.S. LNG DECISION

REF: STATE 002403

1. DURING OUR MEETING ON JANUARY 11, MINISTER OF MINES
MOHAMMED SADLI EXPRESSED APPRECIATION THAT THE U.S. GOVERNMENT
HAD AT LAST RENDERED A DECISION ON THE IMPORT OF INDONESIAN
LNG. HE IS CONCERNED, HOWEVER, BY OUR REJECTION OF THE FORMULA
FOR PRICE ESCALATION PROPOSED BY THE GOI AND PACIFIC LIGHT.
GAS IS, HE SAID, AN ENERGY SOURCE, AND IT MAKES SENSE TO HIM
TO BASE THE PRICING FORMULA ON AN ENERGY INDICATOR SUCH AS THE
OPEC PETROLEUM PRICE. HE SAID IN ANY EVENT THAT THE PRICE OF
PETROLEUM IS SET INITIALLY BY SUPPLY AND DEMAND AND SUBSEQUENTLY
CONFIRMED BY OPEC. OPEC CANNOT SET A PRICE LEVEL WHICH DEVIATES
FROM THIS FUNDAMENTAL PRINCIPLE BUT IT DOES PROVIDE A RATIONAL
BASIS FOR THE LNG PRICING FORMULA.

2. ASKED ABOUT THE GOI'S BASIC POLICY TOWARD THE EXPORT OF LNG,
SADLI SAID THIS INCLUDED THREE ELEMENTS: TO EXPORT AT THE BEST
POSSIBLE PRICE, WHICH AT PRESENT IS THAT PAID BY JAPAN; TO DO
NOTHING TO DISRUPT THE PRICING FORMULA WITH JAPAN; AND IF THE
INCENTIVE FOR EXPORT IS NOT THERE, TO KEEP THE GAS IN THE GROUND
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OR USE IT TO DEVELOP DOMESTIC INDUSTRIES. HE NOTED THAT THE
INCENTIVE TO EXPORT TO THE UNITED STATES HAD BEEN REDUCED BY
THE FACT THAT JAPAN WOULD TAKE MORE OF INDONESIA'S LNG THAN
INITIALLY ENVISAGED.

3. ASKED FOR MY VIEWS, I SAID IT SEEMED TO ME INDONESIA NEEDED
TO MAKE A FUNDAMENTAL DECISION. IF THEY WANTED THE ADDED

REVENUES FOR EXPORT TO THE U.S. AND IF DIVERSIFICATIN OF THEIR MARKET WAS IMPORTANT, THEY THEY SHOULD MOVE QUICKLY TO RESOLVE THE PRICING FORMULA. I SAID IT WAS MY IMPRESSION THAT BASING THE FORMULA IN ANY WAY ON THE OPEC PRICE WOULD BE ECONOMICALLY AS WELL AS POLITICALLY UNACCEPTABLE FOR THE UNITED STATES. HOWEVER, AS I READ THE DOE STATEMENT, WE WERE PERFECTLY AGREAEABLE TO THE PRINCIPLE OF AN ESCALATER CLAUSE. THE KEY WAS TO FIND ONE WHICH MET OUR MUTUAL NEEDS.

4. SADLI SAID THAT ALTHOUGH THE NEED TO EXPORT TO THE UNITED STATES WAS LESS NOW THAN PREVIOUSLY, BRINGING IN THE U.S. MARKET WAS STILL DESIRABLE. HE SAID INDONESIA WOULD DROP THIS PROBLEM IN PACIFIC LIGHT'S LAP DURING THEIR VISIT NEXT WEK AND ASK THEM TO TRY TO WORK OUT AN ARRANGEMENT SATISFACTORY TO BOTH PARTIES. MASTER
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